

Responses to Exemption Working Group Questions

1. Should customers be required to file EEC exemption requests and supporting documentation with Efficiency Vermont (or BED), and the Contract Administrator, in addition to the Board and the DPS?

Response: A distinction was made between the "application" and the customer's "exemption request" that is filed with the Board. The customer provides the application to the Energy Efficiency Utility (Efficiency Vermont or BED), the Contract Administrator, and the Department of Public Service. The Energy Efficiency Utility (EEU), in a process similar to that followed for projects submitted in the Customer Credit Program, reviews the application and communicates its findings to the applicant, the CA, and the DPS. At a minimum, the EEU reviews the determination of whether the project represents a "market driven" or "retrofit" project, the electric avoided cost benefits, the design and construction standard practice (baseline), project costs, and the calculation of the amount needed to result in an 18 month payback on retrofit projects. A detailed description of the complete application process, the "**Energy Efficiency Charge Exemption Process**" is attached.

2. Can a standard application form be developed?

Response: Yes. A proposed standard application form will be attached (see "**List of data elements needed for EEC Exemption Application – EEU Review**"). At a minimum, the application requires an application review and response from the EEU. Applications will be available from the Board, EEU, DPS, and Distribution Utilities. Also available is the "**Energy Efficiency Charge Exemption Process**" information sheet referenced in response #1.

It was agreed that it is the customer's obligation to establish project eligibility, whether it be "extraordinary costs" or "extraordinary energy efficiency". For the purposes of these determinations, the working group defined a customer's project EEC contributions and energy use. The EEC exemption application would apply to the customer's EEC charge resulting from energy measured on a single meter or that EEC charge resulting from energy measured on multiple meters on the customer's premises consisting of contiguous property. The customer's electrical energy use is that which is used to calculate

the EEC charge that is the subject of the applicant's exemption request.

3. Is it necessary to allow three months for Efficiency Vermont or BED to verify project cost-effectiveness?

Response: Yes. Because of the uncertainty surrounding the number of applicants, a project's complexity, and the degree to which the applications will include sufficient project detail, three months was seen as a reasonable starting point.

4. Will site visits be required to verify project installation? If so, who will perform them?

Response: At a minimum, EEU staff or representatives will do a site visit. The DPS, CA and or Board members or Board representatives may be involved at the initial site visit or at a later time. The intensity of the data collection effort on a site visit would be a factor of the project's complexity and the uniqueness of the project's underlying technology.

5. Are paper filings sufficient to consider EEC exemption requests?

Response: Paper and/or electronic documents are acceptable for the application to the EEU, the Contract Administrator (CA), and the Department of Public Service. Paper documents are required for the Exemption Request filed with the Board and all other interactions. At the request of an applicant, the DPS, the EEU, or a Distribution Utility, the Board may decide to hold a hearing.

6. Is two weeks sufficient time for the Board to rule on all exemption applications? What happens if the Board receives many applications?

Response: Two weeks is not sufficient time for Board review. Board review time is not limited (see "Energy Efficiency Charge Exemption Timeline").

7. Which technical standards should be used to determine what constitutes an extraordinary amount of cost-effective energy efficiency?

Response: Eligible investments are required to have a simple payback longer than 18 months.

In new construction or equipment replacement projects, an “extraordinary amount” of energy efficiency should exceed CBES by at least 40%. For new projects not covered by CBES or another standard code, an “extraordinary amount” of energy efficiency should be at least 40% more efficient than the standard equipment that would typically be used.

In projects where the equipment still has usable life and energy savings is the primary factor in making the switch (aka “energy retrofit”), the “extraordinary amount” standard should be comprehensive in scope. It should include all cost-effective efficiency for the project as assessed by the statewide screening tool. For example, for a lighting retrofit to be considered comprehensive, it should include fixtures, controls, occupancy sensors (if warranted) and reflect an approach designed to maximize energy savings.

If selecting among different standards or levels of efficiency, the selected measures must yield maximum societal net benefits according to the statewide screening tool.

8. How can agreed-upon information regarding baselines be provided to customers so that the customers can determine the incremental costs of energy efficiency?

Response: For all non-custom projects, customers can rely on EVT's Technical Resource Manual for baseline assumptions. In new construction and equipment replacement, the baseline is CBES or prevailing code. In projects not covered by CBES or another code or standard, the standard should be the standard equipment available in the market.

The Energy Efficiency Utility will provide assistance in the use of the TRM and interpreting CBES. However, documentation of the proposed baseline shall be the sole responsibility of the customer.

9. How does one establish baselines for custom projects for which no baselines have been previously defined?

Response: In custom projects, it is the customer’s responsibility to fully characterize the baseline, or the standard practice and the proposed energy efficient option.

In retrofit situations, the baseline is generally the existing situation. In market opportunity projects, the baseline is the standard required by CBES, any other required code or standard practice.

10. How should participant measure costs be defined?

Response: For retrofit projects, building improvements, or replacing operating equipment with remaining useful life (i.e. early retirement), the measure costs shall include the full costs of the equipment and installation. For new buildings or equipment, the measure cost shall be the incremental costs of higher efficiency equipment or buildings above the baseline costs of the equipment, installation and associated expenses.

Eligible non-equipment and installation costs shall not exceed:

15% of the total amount for retrofits;

25% of the total amount of new buildings or equipment.

11. Are there any limits to the technical assistance that EVT may provide to a customer on a particular project before that project could no longer be used to support a request for an exemption? If so, what should those limits be?

Response: There should be no limits to EVT's or BED's assistance other than those that normally apply to all customers. This policy increases the likelihood of achieving the state's goal to achieve the maximum magnitude of societal net benefits while acquiring comprehensive cost-effective electric efficiency savings. Because technical assistance is not without cost, and because the EEU structure is performance based, a portion of the energy savings that are the basis of the exemption would be included in the EEU's performance base.

The EWG recommends that the percentage be 60%. This figure represents the historical average percent of EVT's non-incentive costs. As such, it represents the average percent of spending that EVT realizes to capture and promote energy savings statewide.

By granting the recognition of a portion of an exempted customer's projects energy savings (60%), two primary goals are achieved.

A. The EEU is made whole for its investment in technical assistance and general education.

B. The EEU will not have an interest in whether the customer seeks an exemption or an EEU incentive.

12. If exemptions are granted, what are the possible rate impacts to customers who continue to pay the EEC? Are there steps that should be taken to minimize those rate impacts?

Response: Given the uncertainty of ratepayer participation in the exemption process, specific rate impacts were not estimated.

However, given any participation, there will be less EEC remittances in the exemption year. Since total actual remittances are compared against estimated remittances, and that difference used to adjust future EEC's, any decrease in the remittance level is reflected in rates.

Turning to rate mitigation strategies, the EWG did not reach consensus. Ideas that were put forward included:

1. For a pilot period, cover the exemption short-fall with an equal amount from the ISO-NE's Forward Capacity Market Transitional payments,
2. Adjust future collections to recover exempted amounts over a three year period rather than a one year period,
3. Reconsider adjusting the EEU's budget to reflect exempted revenue.

13. Should the schedule for applying for an exemption be modified in the first year?

Response: Yes. The initial application deadline date should be waved as well as the EEU's deadline for review and response. All other time periods would apply.

Additional issue that the Board in its March 14 Order asked the EWG to address:

14. Should the Exemption apply to bills rendered February to February or to a customer's actual calendar year payments?

Response: The exemption should apply to bills rendered February to February. That way, distribution utilities will make the changes to their IT systems at the same time as they implement the new EEC rates. Thus, administrative expenses will be minimized. In addition, this timing will facilitate the investigation of exemption rate impacts as individual customer exemptions will coincide with the EEC revenue year.

Additional issues that the exemption working group choose to clarify:

A. Given VEIC's participation in the ISO-NE's Forward Capacity Market, may VEIC claim the capacity reductions resulting from projects that are the subject of EEC exemptions?

Response: Given that potential EEC Exemption applicants are fully informed about their transfer of their project's capacity reduction credit

June 18, 2007

for the state's use in ISO-NE's Forward Capacity Market Auctions, the EWG recommends that VEIC be empowered to incorporate such savings in their calculation of statewide capacity reductions.